

**Controls Should Be Strengthened Over
Business Taxpayer Accounts with
Frozen Million Dollar Refunds**

September 1999

Reference Number: 199940057



DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

September 27, 1999

MEMORANDUM FOR COMMISSIONER ROSSOTTI

A handwritten signature in cursive script, reading "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - Controls Should Be Strengthened Over
Business Taxpayer Accounts with Frozen Million Dollar Refunds

This report presents the results of our limited scope review of Business Master File (BMF) Tax Modules with Frozen Million Dollar Refunds. The audit was performed mainly in the Memphis Service Center, with limited analysis of frozen million dollar refunds in the other nine service centers.

Our limited analysis showed that the Internal Revenue Service (IRS) could provide better customer service and reduce interest expense by ensuring that frozen million dollar refunds are properly and timely released. The IRS incurred additional interest expense of approximately \$17.5 million on 44 business taxpayer accounts that had a "Million Dollar Refund Freeze" present and a manual refund of \$50,000 or more.

We reported these conditions in an April 8, 1998, memorandum to the Executive Officer for Service Center Operations (EOSCO), and provided him with a listing of 411 business taxpayer accounts with a "Million Dollar Refund Freeze" present as of April 4, 1998. His office began immediate corrective action to resolve these freezes, and developed new processes to identify and expedite resolution of frozen million dollar refunds. As a result, service center management has resolved, or is in the process of resolving, the remaining accounts that were identified. These accounts may also result in additional interest expense to the IRS.

We received a response to the EOSCO memorandum on August 7, 1998. We initially issued the draft report to the EOSCO on December 4, 1998. His office informed us that the report should be controlled by the Chief Operations Officer for management's response and proper control over implementation of corrective actions. We issued the

draft to the Chief Operations Officer on December 19, 1998. To date, we have not received a response.

To ensure that the IRS does not incur additional interest expense, we recommended that (1) the freeze indicator program be modified to provide the option to release business taxpayer account credit balances plus computed interest that total less than \$1 million, (2) follow-up transcripts be generated periodically for business taxpayer accounts with a "Million Dollar Refund Freeze" present, (3) the "Million Dollar Refund Freeze" appear on critical IRS computer display screens, and (4) current Internal Revenue Manual procedures be enhanced to identify and expedite the resolution of a "Million Dollar Refund Freeze."

Copies of this report are also being sent to IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions, or your staff may call Walter Arrison, Associate Inspector General for Audit (Wage and Investment Income Programs), at (770) 455-2475.

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Controls Should Be Strengthened Over Business Taxpayer Accounts with Frozen Million Dollar Refunds

Executive Summary

We performed a limited review to determine whether the Internal Revenue Service (IRS) was properly releasing the automatic hold placed on business taxpayer accounts when a credit balance reaches an amount that would cause a refund of \$1 million or more. This automatic hold is called a “Million Dollar Refund Freeze” and the affected refunds are known as “frozen refunds.” This hold also results in a “Million Dollar Refund Freeze” indicator being placed on the taxpayer’s account in the IRS computer systems to alert IRS employees that this situation exists. The employee should review the account to ensure all obligations have been satisfied and prepare a refund for the remaining credit.

We conducted the review at the Memphis Service Center, one of the ten IRS sites which processes tax information. We evaluated accounts in all ten IRS processing sites to determine the additional interest the IRS paid on these accounts because the refunds were not issued timely. As of April 4, 1998, 411 business taxpayer accounts had a “Million Dollar Refund Freeze” indicator. Credits on these accounts totaled approximately \$2.4 billion.

Results

Our limited analysis showed that the IRS could provide better customer service and reduce interest expense by ensuring that frozen million dollar refunds are properly and timely released (the freeze removed and the taxpayer refunded his/her credit). We determined that the IRS incurred additional interest expense of approximately \$17.5 million on 44 business taxpayer accounts that had a “Million Dollar Refund Freeze” present and manual refunds of \$50,000 or more.

We reported these conditions in a memorandum to the Executive Officer for Service Center Operations (EOSCO). This executive is responsible for the effective operations of all ten IRS service centers. We also provided the EOSCO with a listing of 411 business taxpayer accounts with a “Million Dollar Refund Freeze” present on their account as of April 4, 1998.

His office began immediate corrective action to resolve these freezes, and developed new processes to identify and expedite the resolution of frozen refunds. As a result, service center management has resolved, or is in the process of resolving, the remaining accounts that were identified. These accounts may also result in additional interest expense, above the \$17.5 million which we identified, to the IRS.

The following issues contributed to this problem and warrant service center management’s attention.

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- Criteria used to release a “Million Dollar Refund Freeze” can prevent refunds of less than \$1 million. For example, if the credit balance of an account with the freeze falls below \$1 million, the freeze will remain in place until a manual refund is input.
- Follow-up transcripts are not generated when a “Million Dollar Refund Freeze” remains unresolved. For example, a transcript generates when the freeze is initially placed on the account. If the account is being audited, the credit is held pending the results of the audit. If the employee conducting the audit fails to input a manual refund to release the freeze once the audit is completed, the refund would remain frozen. No follow-up transcript will generate to alert the IRS employee of this condition.
- Although the “Million Dollar Refund Freeze” indicator is placed in the taxpayer’s account, it is not identified on a critical IRS computer display screen. As a result, IRS employees researching a tax account may not be aware that this freeze is preventing the credit balance from refunding. Therefore, instead of preparing a manual refund, they may leave the account as they found it, assuming that a refund will be sent automatically.
- Procedures for the Taxpayer Relations Branch Technical Unit, who is responsible for resolving “Million Dollar Refund Freezes,” do not address how they should resolve these cases.

Summary of Recommendations

To ensure that the IRS does not incur additional interest expense, we recommend that service center management take the following actions:

- Modify the “Million Dollar Refund Freeze” indicator program in the IRS’ computer system to provide the option to release business taxpayer account credit balances plus computed interest that total less than \$1 million (i.e., when the refund due drops below \$1 million at any point in time).
- Periodically generate follow-up transcripts for business taxpayer accounts with a “Million Dollar Refund Freeze” present to ensure that unresolved accounts are reviewed and the freeze released.
- Ensure that the “Million Dollar Refund Freeze” is shown on critical IRS computer display screens so that IRS employees will be aware that this freeze is preventing the credit balance from refunding and take appropriate action.
- Enhance current IRS procedures to identify and expedite the resolution of a “Million Dollar Refund Freeze.”

The above recommendations are listed on page 7 of the report.

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Management's Response: IRS management provided an adequate, detailed response to our memorandum, and agreed that current controls over "Million Dollar Refund Freezes" on business taxpayer accounts do not ensure that refunds are properly and timely released. IRS management also agreed with our recommendations, as well as additional recommendations provided by the service centers. Follow-up transcripts will be generated monthly. The "Million Dollar Refund Freeze" will be shown on a critical IRS computer display screen and IRS procedures will be enhanced. Management's complete response to the memorandum is included in Appendix V of this report.

IRS did not provide a response to our draft report dated December 19, 1998.

Controls Should Be Strengthened Over Business Taxpayer Accounts with Frozen Million Dollar Refunds

Objective and Scope

Our objective was to determine if the IRS was properly and timely releasing the refund holds placed on business taxpayer accounts due to a credit balance which would result in a refund of \$1 million or more.

This report presents the results of our limited review of business taxpayer accounts which had a hold placed on the account due to a credit balance that would result in a refund of \$1 million or more. We conducted initial work for this review in the Memphis Service Center, one of the ten Internal Revenue Service (IRS) sites which processes tax information related to taxpayers' accounts (such as returns, payments, amount due notices, etc.). For our analysis of additional interest incurred by the IRS on the accounts with these holds, we included business taxpayer accounts in all ten service centers.

This was a limited scope review, and we did not perform a typical "program audit" as prescribed in the General Accounting Office's *Government Auditing Standards*. A typical "program audit" is conducted to determine the effectiveness of the IRS' programs or activities, and the extent to which desired results are being achieved.

Our objective on this audit was limited to determining whether the IRS was timely and properly releasing the refund holds placed on business taxpayer accounts due to a credit balance which would result in a refund of \$1 million or more. To accomplish our objective, we reviewed IRS' procedures for resolving "Million Dollar Refund Freezes." To determine the impact of additional interest paid due to problems with resolving these accounts, we analyzed the IRS' actions on business taxpayer accounts which had a "Million Dollar Refund Freeze."

Details of our audit objective, scope, and methodology are presented in Appendix I. Major contributors to this report are listed in Appendix II.

Controls Should Be Strengthened Over Business Taxpayer Accounts with Frozen Million Dollar Refunds

Background

When a business taxpayer account reaches a credit balance which, combined with interest, would result in a refund of \$1 million or more, the IRS' computer system places an automatic hold on the account. This automatic hold is called a "Million Dollar Refund Freeze" and the affected refunds are known as "frozen refunds" or "frozen credits." This hold also results in a "Million Dollar Refund Freeze" indicator being placed on the taxpayer's account in the IRS computer system to alert IRS employees that this situation exists.

The computer system causes the automatic printing of details of the taxpayer's account (called a transcript), which is sent to an IRS employee in the service center (a tax examiner in the Taxpayer Relations Branch Technical Unit). The tax examiner is responsible for reviewing the account and taking the actions needed to resolve the freeze. They should offset any debit balances the taxpayer owes for other tax periods (years or quarters for which tax returns are due), abate (delete) any interest not due to the taxpayer, and prepare a refund for the remaining credit. The refund they prepare is called a manual refund, as opposed to one which is automatically sent by the IRS computer system.

The manual refund releases the "Million Dollar Refund Freeze" as long as it causes the remaining credit balance on the account to be below \$1 million. In addition, if no manual refund is prepared, the account balance dropping to zero or a debit balance will also remove the freeze. The freeze will remain in place until one of these two things occurs.

Results

The IRS could provide better customer service and reduce interest expense by ensuring that frozen million dollar refunds are properly and timely released (the

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freeze removed and the taxpayer refunded his/her credit). The IRS incurred additional interest expense of approximately \$17.5 million on 44 business taxpayer accounts that had a "Million Dollar Refund Freeze" present and manual refunds of \$50,000 or more.

The following issues contributed to this problem, and warrant service center management's attention:

- Criteria Used to Release a "Million Dollar Refund Freeze" Can Prevent Refunds of Less Than \$1 Million
- Follow-up Transcripts Are Not Generated When a "Million Dollar Refund Freeze" Remains Unresolved
- The "Million Dollar Refund Freeze" Is Not Identified on a Critical IRS Computer Display Screen
- Procedures for the Taxpayer Relations Branch Technical Unit Do Not Address Resolving "Million Dollar Refund Freeze" Transcripts

We reported these conditions in a memorandum to the Executive Officer for Service Center Operations (EOSCO). This executive is responsible for the effective operations of all ten IRS service centers. We also provided the EOSCO with a listing of 411 business taxpayer accounts with a "Million Dollar Refund Freeze" indicator, as of April 4, 1998.

His office began immediate corrective action to resolve these freezes, and developed new processes to identify and expedite the resolution of frozen refunds. As a result, service center management has resolved, or is in the process of resolving, the remaining accounts that were identified. These accounts may also result in additional interest expense to the IRS.

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Criteria Used to Release a “Million Dollar Refund Freeze” Can Prevent Refunds of Less Than \$1 Million

The refund freeze indicator will remain on an account if a manual refund is not input and the account remains in credit balance.

A “Million Dollar Refund Freeze” indicator is placed on a business taxpayer account when the credit balance plus computed interest is \$1 million or more. To release the freeze, an IRS employee must input a manual refund, and the remaining credit balance on the account after the refund must be less than \$1 million. The freeze is also released when the account becomes a zero or debit balance, even if no manual refund was prepared.

However, there is a flaw in the criteria used to remove a “Million Dollar Refund Freeze.” If the account’s balance with interest falls below \$1 million but remains a credit, and no manual refund is input, the freeze will remain in place and prevent the refund from going to the taxpayer. For example, if the account dropped to a credit balance of \$50,000, that amount would still not refund due to the “Million Dollar Refund Freeze.”

Follow-up Transcripts Are Not Generated When a “Million Dollar Refund Freeze” Remains Unresolved

Transcripts are automatically generated for accounts when a “Million Dollar Refund Freeze” is initially placed on an account. The transcripts are sent to employees in the Taxpayer Relations Branch Technical Unit of the service center to ensure that the accounts are reviewed and the freeze is released. The employee should offset any debit balance the taxpayer owes for another tax period, abate any interest not due to the taxpayer, and prepare a manual refund for the remaining credit.

There are occasions when the Technical Unit employee should not refund a credit balance. For example, when

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Million dollar refund transcripts only generate when the freeze is initially placed on the account. Therefore, unresolved accounts can remain in credit balance for an extended period of time.

the IRS is auditing the account, a manual refund should not be prepared so that the credit is held pending the results of the audit. This prevents the IRS from refunding a large amount of money, and then having to issue a bill if the taxpayer is assessed additional tax as a result of the audit in process.

Since transcripts for the “Million Dollar Refund Freezes” are only generated when the freezes are initially placed on the accounts, unresolved accounts can remain in credit balance for an extended period of time. If the employee conducting the audit, in the example above, failed to prepare a manual refund and release the freeze when the audit was completed, the account would remain with a frozen refund. No follow-up transcript would generate to alert IRS employees to this situation.

During our limited review of business taxpayer accounts with frozen million dollar refunds, we identified an account that had been placed in a refund freeze and had a transcript generated in June 1997. This account was being audited at the time and the Technical Unit did not release the refund. The employee performing the audit did not properly release the freeze when the audit was closed and approximately \$37,000 in additional interest accumulated on the account during the next six months. This problem is attributed to the situation detailed in the next section regarding information available during research of tax accounts.

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The “Million Dollar Refund Freeze” Is Not Identified on a Critical IRS Computer Display Screen

IRS employees researching taxpayers’ accounts using a critical computer display screen would not be aware that a “Million Dollar Refund Freeze” is preventing the credit balance from refunding.

One critical IRS computer display screen, which is used to research a taxpayer’s account, is designed to have more detailed tax account information than any other single display option. By accessing this display screen, IRS employees can identify which, of many, freeze conditions (holds placed on a taxpayer’s account for various reasons; defined by specific freeze codes) are affecting a particular taxpayer’s account.

However, the “Million Dollar Refund Freeze” for business taxpayers is not identified with a freeze code and the indicator is not shown on this computer display screen used for research. As a result, IRS employees researching a tax account, using this display screen, would not be aware that a “Million Dollar Refund Freeze” is preventing the credit balance from refunding. Therefore, instead of preparing a manual refund, they may leave the account as they found it, assuming that the credit balance would cause a refund to be sent automatically.

Procedures for the Taxpayer Relations Branch Technical Unit Do Not Address Resolving “Million Dollar Refund Freeze” Transcripts

There are no procedures to ensure that the “Million Dollar Refund Freeze” transcripts are worked.

Normally, the Taxpayer Relations Branch is responsible for working “Million Dollar Refund Freeze” cases. A transcript is generated when this freeze is placed on a business taxpayer account, and the transcript is routed to the Taxpayer Relations Branch. Tax examiners in the Technical Unit of the Taxpayer Relations Branch are responsible for performing the necessary research to resolve refund freezes. However, there are no Technical Unit procedures to ensure that “Million Dollar Refund Freeze” transcripts are actually worked.

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Generally, the Internal Revenue Manual (IRM) is the document which provides guidance on how a particular office or department in the IRS is to perform its duties. While there is an IRM that details procedures for the Technical Unit of the Taxpayer Relations Branch, this IRM does not specifically address the working of transcripts for “Million Dollar Refund Freeze” accounts.

Recommendations

To ensure that the IRS does not incur additional interest expense in the future, we recommend that service center management take the following actions:

1. Modify the “Million Dollar Refund Freeze” indicator program in the IRS’ computer system to provide the option to release business taxpayer account credit balances plus computed interest that total less than \$1 million (i.e., when the refund due drops below \$1 million at any point in time).
2. Periodically generate follow-up transcripts for business taxpayer accounts with a “Million Dollar Refund Freeze” present.
3. Ensure that the “Million Dollar Refund Freeze” is shown on critical IRS computer display screens.
4. Enhance current IRM procedures to identify and expedite the resolution of a “Million Dollar Refund Freeze.”

Management’s Response: IRS management provided an adequate, detailed response to our memorandum, and agreed that current controls over “Million Dollar Refund Freezes” on business taxpayer accounts do not ensure that refunds are properly and timely released. IRS management also agreed with our recommendations, as well as additional recommendations made by the service centers. Follow-up transcripts will be generated

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monthly. The “Million Dollar Refund Freeze” will be shown on a critical IRS computer display screen and IRS procedures will be enhanced. Management’s complete response to the memorandum is included in Appendix V of this report.

However, IRS did not provide a response to our draft report dated December 19, 1998.

Conclusion

It is important that the IRS properly handle business taxpayer accounts where refunds are due of \$1 million or more. This is important both from a customer service aspect, as well as to protect the funds of the government by avoiding payments of excess or unnecessary interest.

We found that the IRS could provide better customer service and reduce interest expense by ensuring that frozen million dollar refunds are properly and timely released. The IRS incurred additional interest expense of approximately \$17.5 million on 44 business taxpayer accounts that had a “Million Dollar Refund Freeze” present and a manual refund of \$50,000 or more.

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Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to determine whether the Internal Revenue Service (IRS) was timely and properly releasing the refund holds placed on business taxpayer accounts (Business Master File (BMF) tax modules) due to a credit balance which would result in a refund of \$1 million or more. These holds are called a “Million Dollar Refund Freeze,” and the refunds are called “frozen refunds” or “frozen credits.” This was a limited scope review, and we did not perform a typical “program audit” as prescribed in the General Accounting Office’s Government Auditing Standards. The typical “program audit” is designed to determine the effectiveness of the IRS’ programs and activities, and the extent to which desired results or benefits are being achieved.

To accomplish our objective, we conducted the following tests:

- A. Analyzed the BMF Report of Frozen Credits for September 27, 1997, and April 4, 1998, to identify cases with the “Million Dollar Refund Freeze” present.
- B. Reviewed system processing procedures for the “Million Dollar Refund Freeze” and for generating related transcripts (records of the taxpayers’ accounts). This included the review of how the IRS’ employees and computer systems identify and handle accounts which should, or do, contain “Million Dollar Refund Freezes.”
- C. Reviewed Internal Revenue Manual procedures for IRS employees responsible for resolving “Million Dollar Refund Freezes.”
- D. Computed the additional interest the IRS incurred due to the untimely release of frozen million dollar refunds. We selected all accounts from the BMF Report of Frozen Credits identified in Objective A above which had manual refunds of \$50,000 or more. We then computed the interest on those accounts.

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Appendix II

Major Contributors to This Report

Walter E. Arrison, Associate Inspector General for Audit (Wage and Investment Income Programs)

M. Susan Boehmer, Director

Harry B. Odom, Director

Terry W. Black, Audit Manager

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Van Warmke, Senior Auditor

Nelva Blassingame, Auditor

Steve Gibson, Auditor

Mary West, Auditor

Tina Wong, Auditor

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Appendix III

Report Distribution List

Deputy Commissioner Operations C:DO
Chief Operations Officer C:OP
Assistant Commissioners (Forms and Submission Processing) OP:FS
National Director, Submission Processing OP:FS:S
Executive Officer for Service Center Operations OP:SC
Director, Memphis Service Center D
National Director for Legislative Affairs CL:LA
Office of Management Controls M:CFO:A:M
Assistant Commissioner (Program Evaluation and Risk Analysis) M:OP
Audit Liaison:
Assistant Commissioner (Customer Service) OP:C

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Appendix IV

**Memorandum: Management Should Review and Take Appropriate Action
on BMF Tax Modules with Frozen Million Dollar Refunds**



**DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
2900 WOODCOCK BLVD.
CHAMBLEE, GA 30341**

REGIONAL INSPECTOR

April 8, 1998

**MEMORANDUM FOR JOHN RESSLER
EXECUTIVE OFFICER FOR SERVICE CENTER
OPERATIONS**

FROM:

Richard Byrd, Jr.

A handwritten signature in black ink, appearing to read "Lawrence A. Grant".

Regional Inspector, Southeast Region

SUBJECT:

Internal Audit Memorandum – Management Should Review
and Take Appropriate Action on BMF Tax Modules with
Frozen Million Dollar Refunds

During the initial review of frozen Master File credits, we identified several issues regarding frozen Business Master File (BMF) million dollar refunds that warrant your attention. These issues were previously discussed with you. This review is one of several audits supporting Internal Audit's Service Center Accounting Function Strategy. We have temporarily suspended our review of frozen Master File credits due to other priorities. However, we expect to resume our fieldwork shortly.

If you do not agree with the facts, conclusions, or recommendations presented in this memorandum, please contact my office within five workdays. If you are in agreement, please provide us your response in accordance with Internal Revenue Manual (IRM) 1289. If your staff has any questions, they may contact Audit Manager Danny Verneuille at FTS 901-546-3111 or VMS 28501-24906.

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Results

Our limited analysis showed that the Service is negatively impacting customer service and incurring additional interest expense because frozen million dollar refunds are not always being released timely. As of September 27, 1997, Service reports present 410 BMF accounts with frozen million dollar refunds representing over \$2.3 billion. Over \$1.2 billion of the total frozen refund amount was for accounts at least three years old.

The million dollar refund freeze indicator prevents modules with credit balances plus computed interest that total less than \$1 million from refunding.

A million dollar refund freeze indicator is established on a BMF tax module once the credit balance plus computed interest equals or exceeds \$1 million. To remove the freeze indicator, a tax examiner must input a manual refund and the remaining credit balance on the account after the refund must be less than \$1 million. The freeze indicator is also released when the module balance becomes zero or debit balance.

There are situations when the tax module's credit balance plus interest falls below the \$1 million tolerance. However, the refund freeze indicator will remain on the account if a manual refund was not input (see table 1).

Table 1. Evaluation of BMF Account Balances with a Million Dollar Refund Freeze Indicator as of Cycle 9739

	Credit Amount < \$1,000	<i>Credit Amount ≥ \$1,000 but < \$25,000</i>	<i>Credit Amount ≥ \$25,000 but < \$100,000</i>	<i>Credit Amount ≥ \$100,000 < \$1,000,000</i>	<i>Credit Amount ≥ \$1,000,000</i>	All Credit Amounts
Number of Accounts	41 (10%)	50 (12%)	12 (3%)	81 (20%)	226 (55%)	410
Balance	\$8,500	\$350,000	\$760,000	\$51 Million	\$2.25 Billion	\$2.3 Billion

Note: We did not review cases to determine if other freeze conditions were present. Also, due to rounding, column totals may equal more than the total.

Follow-up transcripts are not generated if the million dollar refund freeze condition remains unresolved.

Million dollar refund transcripts are generated for review in the service center to ensure that tax modules with the freeze indicator are examined. Tax examiners are to offset any debit balance modules, abate any interest not due to the taxpayer, and prepare a manual refund for the excess credit. There are certain situations, however, where the credit balance should not be refunded (i.e., the account has an audit indicator).

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Since million dollar refund transcripts only generate in the cycle that the freeze is established, unresolved accounts can remain in credit balance for an extended period of time (see table 2). During our limited review of tax modules with frozen million dollar refunds, we identified an account that generated a million dollar refund transcript in June 1997. The tax examiner did not properly release the freeze condition when the audit was closed, and approximately \$37,000 in additional interest accumulated on the tax module during the next six months.

Table 2. Aging of BMF Accounts with a Million Dollar Refund Freeze Indicator as of Cycle 9739

	26 Cycles Old or Less	27 to 52 Cycles Old	53 to 103 Cycles Old	104 to 155 Cycles Old	156 Cycles Old or More	All Cycles
Number of Accounts	30 (7%)	50 (12%)	62 (15%)	56 (14%)	212 (52%)	410
Balance	\$70 Million	\$118 Million	\$686 Million	\$226 Million	\$1.2 Billion	\$2.3 Billion

The million dollar refund freeze is not identified on a critical Integrated Data Retrieval System (IDRS) Command Code display.

The Command Code (CC) TXMOD, which accesses accounts on the Taxpayer Information File (TIF), is designed to have the most detailed tax module information than any other single command code. By inputting the CC TXMOD, the IDRS operator can identify Master File freeze conditions (defined via alpha codes) which can affect certain module account activity depending on the particular freeze condition.

However, the BMF million dollar refund freeze indicator is not identified with an alpha character freeze code and is not reflected anywhere else in the TIF. As a result, tax examiners researching the tax module on IDRS would not be aware that the condition is preventing the credit balance from refunding.

Technical Unit IRM procedures do not address resolving million dollar refund transcripts.

The BMF Notice Review Processing System (NRPS) identifies notices and refund transcripts for review in the service center. The NRPS categorizes the notices and refund transcripts in a priority sequence and assigns a numerical selection key. To avoid duplicate reviews, notices and refund transcripts issued in the same cycle for the same tax module and service center are associated and packaged together.

The packages (associated notices and refund transcripts) for accounts containing a Large Corporation Indicator are sent to the Technical Unit for review. However, there are no Technical Unit IRM procedures to ensure that the million dollar refund transcripts are worked. Normally, the Notice Review Function is responsible for working million dollar refund transcripts.

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Recommendations

Per your request, we will be providing a listing of BMF accounts with a million dollar refund freeze indicator as of March 31, 1998, for management review and appropriate action.

Management should also consider the following:

- Modify the freeze indicator program to release credit balances plus computed interest that total less than \$1 million.
- Periodically generate follow-up transcripts for tax modules with the million dollar refund freeze indicator.
- Ensure that the freeze condition is properly reflected on the IDRS and enhance current IRM procedures.

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Appendix V

Management's Response to Memorandum



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
P.O. BOX 141118
CINCINNATI, OHIO 45250

EXECUTIVE OFFICER FOR SERVICE
CENTER OPERATIONS

AUG - 7 1998

MEMORANDUM FOR REGIONAL INSPECTOR, SOUTHEAST REGION

FROM:

Susan Hammer
John A. Ressler
for

Executive Officer for Service Center Operations OP:SC:F

SUBJECT:

Listing of Business Master File Accounts by Service Center with
a Million Dollar Refund Freeze Indicator (Urmem 4/29/98)

The service centers have completed their review and taken appropriate actions on the attached listings of the BMF accounts with million dollar refund freeze indicator provided by your office. However, there were several accounts that needed additional research. The service centers are researching these accounts and will notify my office once the appropriate actions have been completed.

We agree with your findings and recommendations presented in your memorandum dated April 8, 1998. The following are some suggested recommendations that were identified by the service centers. My office will assist the service centers with the implementation of these improvements.

- The Million Dollar Freeze Indicator or a Freeze Code should be established on CC TXMODA, similar to CC BMFOLT "Million \$ Refund" to alert the tax examiner that any credit must be manually disposed of via credit transfer, tax adjustment or manual refund.
- Develop IRM Procedure to identify/expedite the disposition of the credit.
- Program Master Files/IDRS to systemically open a control base to the tax examiner profile number that created the credit or control transcripts using Case Control Activity (CCA).
- Generate the Million Dollar Transcript on a monthly basis.
- Issue TEBB to alert all the service center and district office employees of the Million Dollar Freeze Indicator.

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MEMORANDUM FOR REGIONAL INSPECTOR, SOUTHEAST REGION

My office will monitor the implementation of the above improvements and will notify your office on the actions taken. Please note some of these issues will need coordination with national office.

If you need additional information, please contact me at (513) 684-3956, or have a member of your staff contact Annette Gonzalez at (513) 684-3056.

Attachments